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CULTURE AS A PART OF CROSS-BORDER M&A DEAL –  
A study on the post-deal cultural integration

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**ABSTRACT**

The purpose of this study was to examine the success of cross-border mergers and acquisitions from a cultural standpoint. The study was focused on a theoretical perspectives and research findings on a cross-border merger and acquisitions, cultural influences on the deal and cultural integration in a post-deal stage. Finally, the case from the business world was introduced in order to analyse how theoretical background of the subject apply.

The study examined secondary data. Secondary data was gathered from literature focused on mergers and acquisitions, cultures and organisations and cross-cultural management to indicate major findings, and most importantly, identify gaps in the literature that need to be addressed.

The result of the study indicated that identification and evaluation of cultural aspects of potential partners and targets are of a high importance, on the national and corporate culture level, revealing that post-deal integration is a major challenge in most cross-border merger and acquisition transactions. Cultural evaluation is best accomplished by carrying out cultural due diligence. Post-deal cultural integration of the partner or the target company is discovered to be essential for further growth and therefore comprehend the potential value of the investment.

Key words: cross-border mergers and acquisitions, M&A deals, post-deal cultural integration, national culture, corporate culture, cultural due diligence

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## EXPLENATION OF TERMS AND ABBREVATIONS

Confidentiality agreement - *Formal agreement under which a prospective buyer, investor, or lender undertakes to keep all oral or documented-information as strictly confidential, and to return the confidential documents upon request*

Due diligence - *Measure of prudence, responsibility, and diligence that is expected from, and ordinarily exercised by a reasonable and prudent person under the circumstances*

Letter of intent - *Interim agreement that summarizes the main points of a proposed deal, or confirms that a certain course of action is going to be taken*

Net present value - *Difference between the present value (PV) of the future cash flows from an investment and the amount of investment*

No-shop agreement - *The target company involved in merger or acquisition agrees not to consider other offers while negotiating with a particular bidder*

Synergy - *State in which two or more agents, entities, factors, processes, substances, or systems work together in a particularly fruitful way that produces an effect greater the sum of their individual effects*

Value chain - *Interlinked value-adding activities that convert inputs into outputs that, in turn, add to the bottom line and help create competitive advantage*

NPV - *Net Present Value*

M&A - *Merger and Acquisition*

PwC - *PricewaterhouseCoopers*

## 1 INTRODUCTION

Mergers and acquisitions (M&A) have appeared as an important tool for growth and success of the world's companies, especially in the last years. In cross-border activities businesses deal with cross-cultural differences and complexity of different financial structures that play the key part in success of an international M&A deal.

The past years are showing record figures in M&A activities worldwide, and in 2006, figures showed for the first time in this field the annual value of the transactions which was exceeding EUR€ 3 trillion. The cross-border activities alone totalled to a record high of EUR€ 1 trillion. These figures show how important and necessary M&A activities are for the transnational businesses. But not all is as clear and successful as it seems. Even though last years' figures show an increase in international M&A activity, the percentage of failures in transactional activities was in fact 83%.

Since the majority of cross-border M&A transactions fail, the main point of this paper is focused on analysing why this failure figure is so high and it is examined from the cultural perspective of international M&A performance. Carrying out the research and analysing the problems of this subject shows that organisational culture and culture in general (national culture) play a big but complicated role which is difficult to manage in the cross-border M&A activities. Therefore, cultural difficulties are one of the main reasons for cross-border M&A failures. The importance of cultural difference awareness is showed in the case of Daimler-Chrysler merger. The reader of this study will get a deeper insight to the subject of culture and its importance when dealing with cross-border M&A transactions.

This paper covers what has been researched and analysed regarding the topic and the issues of *“What are merger & acquisition in general and cross-border merger & acquisition issues and concerns?”* , *“What role does culture have in cross-border M&A activities and post-deal integration?”* and *“What does post-deal integration present and what is the best way to deal with it?”* in order to create the perspective for the topic and concluding with possible solutions to the issue. The theory part of this paper, therefore, is divided into two sections: (1) Mergers &



acquisitions and cross-border merger & acquisitions, and (2) Culture in general, organisational culture, cultural influences on M&A activities and post-deal cross-border integration.

The purpose of this paper is to function as a pointer of direction when dealing with international M&A in order to recognise possible cultural clashes, and reduce the probability of failure. The information is based on the figures, statistics, and facts, which are combined with opinion of relevant individuals, and with combination of opinion from the author of this paper.

The paper is built in a chronological order. First part of the paper covers theory on mergers and acquisitions, focusing on defining the importance of this kind of transactions in the business world. It is followed by theory of culture, and how it influences the M&A deals' success. The third part focuses on the role of culture in the merger and acquisition deals throughout implementation and cultural integration in the post-deal stage. The forth part examines the crucial importance of early evaluation of cultural differences by using a business case of the merger of America Chrysler Corporation and German Daimler Benz. The last part of the paper provides a recommendation for carrying out cultural due diligence for effective accomplishment that evaluates cultures of involved companies in cross-border M&A deal.

## **2 METHODOLOGY**

This paper is based on secondary material. The material includes mainly academic literature dealing with merger and acquisitions environment, cross-border organisational management and textbooks exploring culture, in order to bring up theoretical background of the subject. The research was realised during autumn/winter 2008 and finalised in spring 2009, with author's high interest to this subject.

To find the literature relevant to the subject, author used different search tools available (libraries, databases, the internet etc.). When searching, author used keywords such as cross-border merger, cross-border acquisition, culture, national culture, corporate culture, cultural impact, integration, and other corresponding keywords related to the subject. Sources for material were found in reference lists of suitable recent research reviews and articles (e.g. European Commission, 2007; Lambrecht, 2005). Author is aware of the fact that the selection of sources can affect the results of the study and therefore author used research articles and findings, with their basis on primary data. Because of wide range of information available, author had to narrow and evaluate the material by significance and relation to the study to achieve quality result.

### **3 M&A – FOCUS TOWARDS CROSS-BORDER M&A**

This part is investigating mergers and acquisitions (M&A) by its definition, diversity, process, the reasons for dealing with M&A and history. It has a special focus on the concerns and findings when dealing with the cross-border M&A.

#### **3.1 M&A Overview**

The subject of M&A is progressively more investigated in the literature in the recent years as the activities in M&A are rising and the complexity of their transactions increases (especially in the cross-border sense) (DePamphilis, 2008). In order to set an M&A framework for this paper's topic, the M&A activities are explored in terms of their definitions and motives behind them.

#### **3.2 Definition of M&A**

Mergers and acquisitions, in the broad sense, can involve a number of diverse transactions that are ranging from the purchase and sales of undertakings, cooperation and joint ventures to the formation of companies, concentration between undertakings, corporate success, insurance of the independence of businesses, alliances, management buy-out and buy-in, change of legal forms, initial public offerings and also restructuring. Changes in ownership of the companies through M&A can have affect on national economies, regional economies, industry structures, owners, creditors, advisers, management, employees and other stakeholders (Angwin, 2007).

The definitions for M&A in order to understand what they actually stand for and why these are important for the companies and the business world in general are the following:

Merger: "A combination of two or more firms in which all but one legally cease to exist." (DePamphilis, 2008,p. 715).

Acquisition: "The purchase by one company of a controlling ownership interest in another firm, a legal subsidiary of another firm, or selected assets of another firm." (DePamphilis, 2008, p. 703).

Mergers are usually referred to as negotiated deals that meet certain technical and legal requirements. These negotiations are usually between friendly parties that have come to a mutually agreeable decision to combine their companies. However, the negotiations can be different in practice where one of the firms in a merger can be more dominant than the other during the transaction. This might lead to the hostile negotiations although these were supposed to be friendly. On the other hand, during some negotiations situation can be vice versa (Weston, Mitchell and Mulherin, 2004).

In acquisitions, one company takes control over the ownership in another firm or selected assets, for instance manufacturing facility. These can be set in the forms of share acquisitions and asset acquisitions. In a share acquisition, acquiring company buys a certain amount of share of stocks in the target company with the goal to influence targeted company's management. As for an asset acquisition, it is when an acquiring company purchases all or a part of the targeted company assets, and after the transaction the target remains as a legal entity (Weston et al, 2004).

Merger and acquisition are therefore two distinct transactions with different consequences regarding economic liability, legal perspectives and acquisition procedures.

### **3.3 The diversity of M&A**

The M&A transactions from the economic perspective can be categorised into horizontal, vertical or conglomerate. A horizontal M&A involves the acquiring and the target company that are rivals in the same industry. Because of the technological changes and economic liberalisation in recent decade, horizontal M&A has developed significantly (such as automobile and pharmaceutical industries). Vertical M&A categorised as combinations of firms in different stages of production. The reasons why firms engage in this kind of transaction are reducing costs and mainly reducing uncertainty through upstream and downstream linkages in the value chain (Weston et al (2004)). As for conglomerate M&A transactions, it is when the acquiring and the target company

are in unrelated types of business activity. An example for this category of transaction is for instance merger of Royal Dutch Petroleum of the Netherlands with Shell Transport & Trading of the UK, which was valued at \$80.1 billion (Institute of Mergers, Acquisitions and Alliances (MANDA), 2009).

In addition, M&A transactions can be either domestic or cross-border (DePamphilis, 2008). This is considered by where the parties involved are based and where they operate. In domestic M&A transactions, parties involved are from one country and operate in that economy-country. A cross-border M&A transaction entails parties that are situated in different countries, or parties that are operating within one economy but are belonging to different countries.

### **3.4 The Process of Merger & Acquisition**

In the literature the M&A process is described as a model that goes through three phases: planning, implementation (execution) and post-M&A integration (Boeh and Beamish, 2007).

It is described that the planning phase consists of choosing the best possible strategy to assist in coordination and emphasising the deal to develop the overall plan for the transaction. Planning covers the analysis i.e. due diligence process, inspection, reflection and various approvals in all operational, managerial and legal techniques with further observation towards the two following phases.

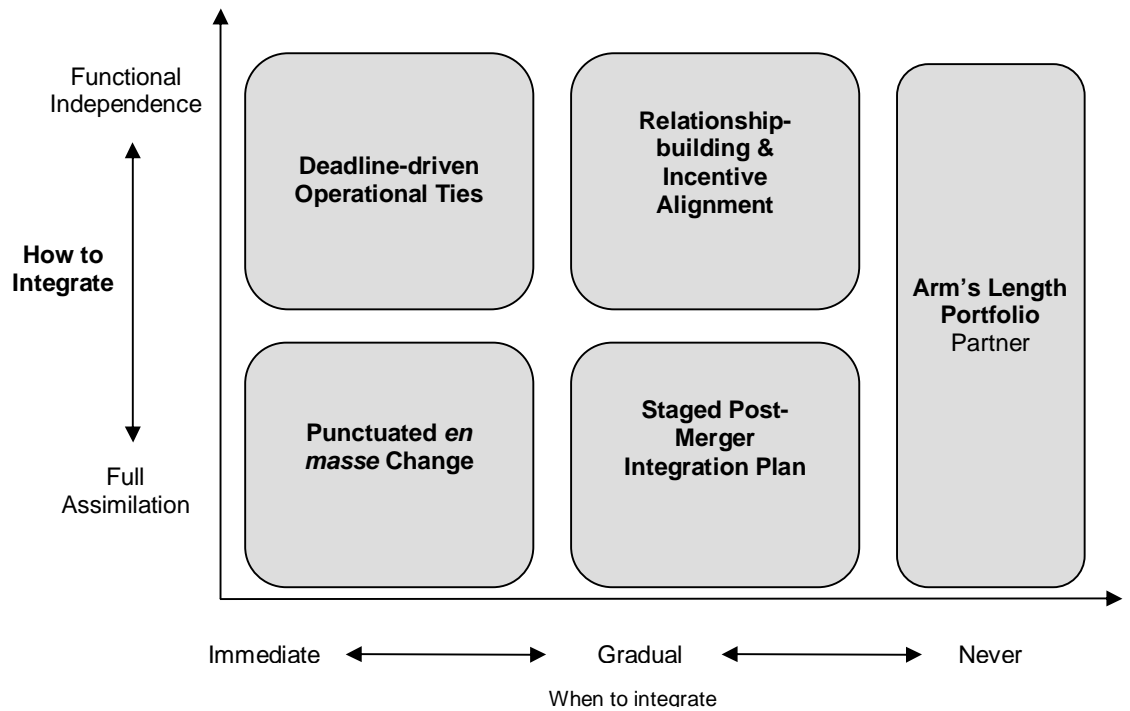
The implementation or execution phase can only be pursued after board of directors approves planning phase and it covers a range of different activities (or checkpoints), events and action. These activities include the signing of confidentiality agreements, letter of intent, possible other types of agreements (e.g. no-shop agreement), and finally it is concluded with an M&A contract and deal closure.

The third phase is known as post- M&A integration. Post- M&A integration should already be overviewed during the planning phase and it includes direct activities of implementation of different mechanisms for monitoring control, implementation of plans for ongoing communication and post-implementation cultural assessment.

According to authors Boeh et al (2007), management teams need to decide after deal is closed using “when” and “how” framework, what is the best tactical choice in achieving deal’s objectives.

The following figure shows this framework (Boeh and Behamish, 2007, p. 272):

Figure 1: Postmerger Integration: When and How



### 3.5 The reasons behind choosing M&A as a way of transaction

The literature on M&A has placed a significant amount of efforts on exploring the motives of firms engaging in M&A transactions. Author Trautwein (1990) has listed a systematic summary of the motives, with a mark on the different theories (referring to table: Motives of M&A).

Trautwein (1990) has pointed out that M&A dealers regularly name synergy and valuation (a positive net present value (NPV) on a deal) as objectives to justify their actions under the motives suggested in various theories. In the text are no claims, which indicate the motives that are to achieve monopoly power or examples where managers refer their own benefits to justify an M&A deal. In addition to this, Trautwein (1990) indicates that there is little evidence available in both practice and research in regards to the motives contained by “the raider” and “the process” theories. He examines the “disturbance theory” to some extent that is considered at the macro-economic level (theories explanation are in the table 1: Motives of M&A, p. 9).

Authors Griffiths and Wall (2007) analyse M&A motives in a more practical way by referring to theories with various supporting empirical case studies as evidence and examples. According to these authors, there are many motives, from which they explained followed as particularly important to this subject:

- Under M&A it is considered for companies to grow quickly which works as an indicator;
- As a result of M&A bigger companies may have a better approach to capital market that might later lead to a lower cost of capital;
- Companies hope to experience gains from economies of scale or scope as a result
- When applying their superior management skills towards the target's business, companies hope to achieve anticipated gains by aim of M&A.

All of the authors agree that there is a range of complex motives that really differ from deal to deal. They also agree on the fact that these motives cannot be completely justified by any single theory or any single approach.

TABLE 1: Motives of M&amp;A (adapted from Trautwein, 1990 and Häkkinen, 2005)

Motive			Theory	About the Theory
M&A rational choice	Beneficiary - M&A shareholders from bidder side	Net gains through synergy	Efficiency theory	Planning and executing M&A deal in order to achieve synergies of three different types: financial, operational and managerial.
		Wealth transfers from customers	Monopoly theory	Planning and executing M&A in order to achieve market power. Horizontal M&A may allow firms to cross-subsidize products. This can also at the same time limit competition in more than one market and therefore prevents potential entrants. The result is a higher market power.
		Wealth transfers from target's shareholders	Raider theory	This theory applies when the bidder in a deal situation causes wealth transfer from the shareholders of the object of the company he bids (after a successful takeover).
		Net gains through private information	Valuation theory	Planning and executing M&A deal by manager that possesses better information about the target's value than what stock market does.
	Beneficiary - M&A managers		Empire-building theory (Managerial theory)	Managers planning and executing M&A deal for their own interests (maximising own benefits) instead of shareholders' value.
M&A as process outcome			Process theory	Processes, which are influenced from organizational routines, political games played between an organization's sub-units and outsiders, and individuals' limited information processing capabilities, are ruling M&A decisions outcome.
M&A as macroeconomic phenomenon			Disturbance theory	Economic disturbances cause M&A waves – they cause changes in individual expectations and increase the general level of uncertainty. It is therefore changing the ordering of individual expectations. By the cause of this previous non-owners of assets now place a higher value on these assets than their owners and vice versa. In the end it results an M&A wave.



### 3.6 The waves of M&A

The M&A form has been known already for a long period of time. The first appearances of M&A date back to the end of the 19th century. From that time, the M&A activity has occurred in cyclic waves that are appearing due to strategic motivations that radically differ (DePamphilis, 2008). In the table below are represented five waves with the timeline of development of M&A and clarification of strategic motivations.

TABLE 2: Historical M&A waves (adapted from DePamphilis, 2008, p. 27)

Wave	Period	M&A Type and main drivers
<b>1st</b>	1897 - 1904	Predominantly horizontal types of M&A. Caused a surge in industrial stocks and resulted in the creation of monopolies.
<b>2nd</b>	1916 - 1929	Horizontal and vertical types of M&A. The antitrust law of the 1920s has lowered the amount of horizontal acquisitions. It resulted in more oligopolies and vertical integration, but fewer monopolies.
<b>3rd</b>	1965 - 1969	Conglomerate types of M&A. Empire building and benefiting from managerial synergies.
<b>4th</b>	1981 - 1989	M&A types in forms of divestitures, bargain-seeking acquisitions, hostile takeovers. Main drivers e.g. consolidation, specialisation, globalisation, deregulations, and restructuring.
<b>5th</b>	1993 - 2001	Related types of M&A. Benefits from coordinating resources and responding to e.g. globalisation, increased importance of knowledge-based resources and increasing shareholders value.

Currently M&A is experiencing its sixth wave that began in 2003. This wave has as one of the main features the rise of global companies pursuing in cross-border M&A deals with more focus on strategic fit and attention to post-deal integration issues (Moeller and Brady, 2007). During the fifth wave, there was a number of

significant deals in different industries, for instance, Hewlett Packard/Compaq in information technology, Exxon/Mobil in oil and petroleum, Daimler Benz/Chrysler in automotive, Mannesmann/Vodafone in telecommunications.

TABLE 3: The top 10 largest deals since 2000 (Institute of Mergers, Acquisitions and Alliances - MANDA, (2009))

Rank	Year	Acquirer	Target	Transaction Value (in Mil. USD)
1	2000	Merger: America Online Inc. (AOL)	Time Warner	164,747
2	2000	Glaxo Wellcome Plc.	SmithKline Beecham Plc.	75,961
3	2004	Royal Dutch Petroleum Co.	Shell Transport & Trading Co.	74,559
4	2006	AT&T Inc.	BellSouth Corporation	72,671
5	2001	Comcast Corporation	AT&T Broadband & Internet	72,041
6	2004	Sanofi-Synthelabo SA	Aventis SA	60,243
7	2000	Spin-off: Nortel Networks Corporation		59,974
8	2002	Pfizer Inc.	Pharmacia Corporation	59,515
9	2004	Merger: JP Morgan Chase & Co.	Bank One Corporation	58,761
10	2006	Pending: E.on AG	Endesa SA	56,266
		<i>Total</i>		754,738

### 3.7 Cross-Border M&A findings & concerns

In many countries international M&A is encouraged as a way of stimulating and restructuring the aspects of the economy. Cross-border M&A stand for the most common mean of use where international corporations take on foreign direct investment, although the majority of these transactions usually fail. The proof of these failures stands in an example of a study that is based on a sample of 4,430 acquisitions. In this study it is showed that international acquisitions by US firms are categorised by significantly lower performance (based on stock returns and operating performance) in comparison to US-domestic transactions. In the analysis on M&A done by KPMG (1999), the findings reflect the result in which is revealed that 83 % of the exemplified international acquisitions failed to create shareholder value. Hence, this means that only 17 % were successful (KPMG (1999)).

When compared to domestic acquisitions, cross-border mergers and acquisitions are believed to involve more obstacles and problems and are therefore less likely to be successful (Angwin, 2007). Mergers and acquisitions in a cross-borders

sense continue to be very popular and still remain the main activity through which transnational businesses undertake foreign direct investment, despite the fact that business practices and researches show that majority of these activities fail, especially in achieving pre-acquisition objectives. Because of these outcomes, it is important to look at the causes of international merger and acquisition failure, and to develop ideas and approaches that may reduce these problems. This is done later in this paper.

Some factors that are influencing the growth of cross-border M&A are already mentioned earlier, and these factors include the worldwide industry consolidation and privatisation, and the liberalization of economies. The activities of cross-border M&A are in a wider prospect similar to those of domestic M&A. But because of their international nature, cross-border M&A also absorb different types of challenges since countries have different economical, institutional, and cultural structure. Hence, differences in national culture, preferences of the customers, business practices, and also institutional forces (for e.g. government regulations), can prevent companies from fully realising their strategic goals and purpose.

In addition, it is important for companies to make a revision of cultural audit of the future partner in M&A deal before making any decisions and signing any contracts as this is one of the crucial effects on a success of a deal. With this revision, companies can achieve wider prospective on the cultural distance between them and the partner company. In terms of organisational behaviour, cultural distance is defined as follows: “the greater the difference in home versus host country culture, the greater the potential difficulties” (Schneider and Barsoux, 2003, p. 140).

It is also significant to understand that the cultural distance and cultural differences do not automatically mean a difficulty, as long as colliding cultures have their complementary sides. For that reason, raising awareness of this issue through this kind of due diligence - known as cultural due diligence - gives a big advantage when integration process occurs. Cultural due diligence is a systematic method that formulates rapid, cost-effective evaluations of the cultures of both sides in M&A (Rankine, Stedman & Bomer, 2003). Cultural due diligence is still a missing link in M&A activity, although legal and financial due diligence are significantly used and studied.

Still the main fact is that companies dealing with cross-border M&A want to access new and rewarding markets. This would include the expansion of companies' current goods to the wider markets. As a positive note of cross-border M&A, companies headquartered in other countries represent a very good opportunity for the company expanding to learn something new and gain new capabilities. As a negative note, unclear information and uncertainty in foreign markets can create a difficulty for companies to learn and adjust to both the local market and target company.

When dealing with cross-border M&A, companies take into consideration diverse circumstances on country-, industry-, and company-level, and aspects that relate both to the acquiring and to the target company. On a country level and the industry level, aspects such as natural resource availability, capital and labour, and additionally, institutional aspects such as cultural, legal and political, are highly important. On a company level, when pursuing an internationalisation strategy it is necessary to identify and evaluate potential targets to acquire in the host countries. When completing an acquisition or a merger, companies generally must integrate the target company into their operations to realize the potential value of their investment.

## **4 The Cultural Influences on M&A Activities**

This part of the theory focuses on the cultural part of M&A, the definition of culture, the meanings of national and corporate culture. It also focuses on the cultural integration in cross-border M&A deals, and identifying cultural differences when it comes to managing cultural integration.

### **4.1 The overview of culture as a part of M&A**

In the M&A concept, cultural incompatibility can be the single largest cause when something goes wrong with the cultural integration i.e. planned performance, the departure of key executives, and also with the conflicts in the consolidation of business that can be time-consuming (Angwin, 2007). Therefore, culture plays an important part in how employees react to the new companies culture environment and overall integration.

Before continuing further it is important to simplify some terms and concepts used in this following part. As earlier proven, mergers and acquisitions are legally different transactions. Merger is seen as a more friendly way of combining two companies, but the combination can only in some cases be treated as one of equals. The future performance of the combined companies is the result of the integration. This can be either a failure or a success. To achieve a successful combination it should, at least in the long run, add value to the shareholders. In this part the author will look at whether or not combinations of cultures can achieve successful results and what post-merger integration issues can occur.

To understand the idea of successful combination in cross-border M&A, it is important to remember that a cultural combination is not always measured directly in financial context. The success can also be measured in terms of reduced employee resistance, more efficient integration and so on. The definition of success or enhanced performance is discussed in different ways by many authors and author will use the word integration in order to address the process where combining companies (organisations) come together to form a new entity.

Post-merger integration can be a very challenging stage for companies when dealing with cross-border M&A. If post-merger integration is not planned

accordantly, companies are going to deal with additional costs, slower growth, miss out possible profits and postpone or reduce loan payments. On the other hand, if post-merger integration is properly planned, it can increase and enhance the opportunities the value of the cross-border deal (PwC M&A Integration Survey Report, 2008). Even though integration concept can include all aspects of a company's operations, author will use the word integration to describe mainly the cultural integration. In addition, to clarify the concepts of organisational culture and corporate culture, author intend to use them synonymously and will from this point use the word corporate culture.

#### **4.1.1 The definition of culture**

The concept of culture in M&A has two dimensions that are in a relationship with one another: national and corporate culture.

From the day we are born, we are taught of what is considered to be right or wrong, ugly or beautiful, moral or immoral and the list goes on. This type of knowledge is shaping the way we behave and therefore develops a pattern of beliefs and values that contribute in daily decisions we make and everything we do. When a certain pattern is established, it is then difficult to change it and it is also learn something that is contradicting to this pattern. This is in a general sense known as culture and it is often described as “collective programming of the human mind that distinguishes the members of one human group from those of another” (Hofstede, 2001, p. 2).

Culture is manifested by different rituals, like activities which are seen important, but not crucial in achieving a desired result. It is visible through different symbols (letters, words, objects or pictures) and heroes (people that are demonstrated as model for behaviour - existing or non-existing). Due to this, it is not only manifested by individuals' own thoughts and values. These manifestations are the cultural meaning and are only apparent to the members of that culture, but to an outside viewer are visible as practices as well. In addition, culture is not something that is inherited, but rather something that is taught in a social environment (Hofstede, 2001). This is shown in the following figure:

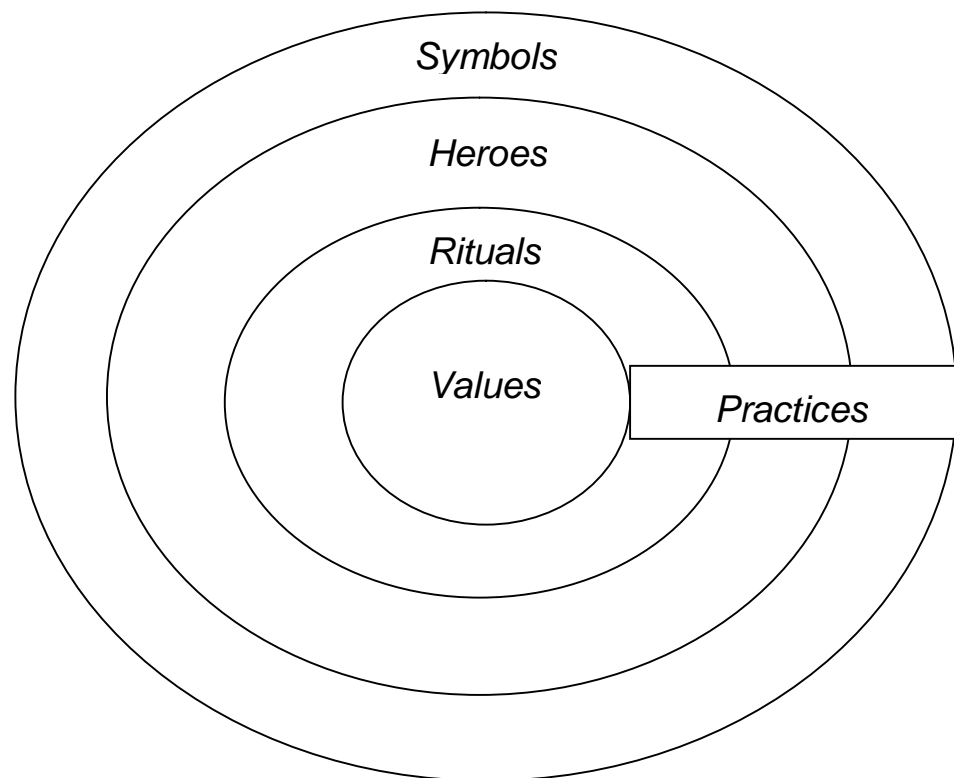


FIGURE 2: The "Onion Diagram": Manifestations of Culture at Different Levels of Depth (Hofstede, 2001, p.11)

#### 4.1.2 National Culture

Culture stands for an imperfectly shared system of interrelated understanding, which is influenced and formed by its members (by history and by experience). Even though individuals are not often aware of their own culture, it still affects almost every aspect of the way people of a group interact with one another or with an external stimulus.

Since the majority of management theories were developed in the Western hemisphere, it is often assumed that they are universally applicable. But, a set of common experience, themes and institutions that members of a nation face, shapes their value orientations. This results in a unique national character, which is then more noticeable to foreigners than to the nationals themselves and differ widely from country to country (Hofstede, 1994).

G. Hofstede and G.J. Hofstede (2005) have conceded the following: others believes that the main grounds for differences in thinking, feeling and acting

between countries is in differences in national institutions (such as governments, laws, religious communities, school systems, family structures), while others point out that institutions cannot be understood without considering culture, and that understanding culture assumes insight into institutions. Therefore, it is impossible to change the way people in a country act, think and feel by simply importing the institutions from a foreign country.

To achieve successful combination in an M&A deal, it is important for multinational companies to understand how national differences influence headquarter-subsidary relationships, as different cultures prefer different rules of conduct or administrative procedures. For that reason, mainly in acquisition activities, it is essential for the acquiring company to understand the national culture of its acquiring target. This initiative will be helpful when post-acquisition stage takes place, during which the acquiring company is about to integrate their management system as well as corporate culture.

In order to describe the key differences in national culture, Hofstede (2001) has developed five dimensions of culture. The five dimensions are used in his survey that shows the differences of more than 50 national cultures. Other researchers, who are measuring distance and evaluating relationships between different national cultures, also regularly use these dimensions. They are also used in numerous studies measuring cultural distance in M&A. The following table shows these five dimensions:



TABLE 4: 5 dimensions of culture (adapted Hofstede, (2001) &amp; webpage (2009))

Value Dimension	Value Description	High Score	Low Score
<b>Power Distance Index (PDI)</b>	The degree of equality, or inequality, between people in the country's society	Indicates that inequalities of power and wealth have been allowed to grow within the society. These societies are more likely to follow a caste system that does not allow significant upward mobility of its citizens	Indicates the society de-emphasizes the differences between citizen's power and wealth. In these societies equality and opportunity for everyone is stressed
<b>Individualism (IDV)</b>	Degree to which a society reinforces individual or collective achievement and interpersonal relationships	Indicates that individuality and individual rights are paramount within the society. Individuals may tend to form a larger number of looser relationships	Typifies societies of a more collectivist nature with close ties between individuals. Reinforce extended families and collectives where everyone takes responsibility for fellow members of their group
<b>Masculinity (MAS)</b>	Degree to which a society reinforces, or does not reinforce, the traditional masculine work role model of male achievement, control, and power	Indicates the country experiences a high degree of gender differentiation. Males dominate a significant portion of the society and power structure, with females being controlled by male domination	Indicates the country has a low level of differentiation and discrimination between genders. Females are treated equally to males in all aspects of the society
<b>Uncertainty Avoidance Index (UAI)</b>	Level of tolerance for uncertainty and ambiguity. within the society - i.e. unstructured situations	Indicates the country has a low tolerance for uncertainty and ambiguity Creates a rule-oriented society that institutes laws, rules, regulations, and controls in order to reduce the amount of uncertainty	Indicates that the country has less concern about ambiguity and uncertainty and has more tolerance for a variety of opinions. It reflects in a society as less rule-oriented, more readily to accepts change.
<b>Long-Term Orientation (LTO)</b>	Degree to which a society embraces, or does not embrace, long-term devotion to traditional, forward thinking values	Indicates the country prescribes to the values of long-term commitments and respect for tradition. This is thought to support a strong work ethic where long-term rewards are expected as a result of today's hard work. However, business may take longer to develop in this society, particularly for an "outsider"	Indicates the country does not reinforce the concept of long-term, traditional orientation. In this culture, change can occur more rapidly as long-term traditions and commitments do not become impediments to change

### 4.1.3 Corporate Culture

Corporate culture has been used as an independent variable to explain differences in management styles and organisational practices, but also to some extent explain the success of some organisations. The general concept of culture can also be applied to companies and organisations.

There are almost as many descriptions and definitions of corporate culture as there are researchers on that subject. To provide a brief theoretical foundation for corporate culture, author Schein (2004) has presented the concept of corporate culture in the way that he is being quite often referred to by others when addressing culture in M&A contexts. Here are some of the examples that Schein is referred to: Trompenaars & Hampden-Turner (2005), Angwin (2007), Holden (2002), Soedberg & Vaara (2003). Definitely

Schein (2004) has presented corporate culture from the standpoint of the observer. He has divided the events into three different levels and they are distinguished by the degree of visibility for the observer. The most visible for the observer are the artifacts (facts that are received when coming across a new culture such as technology and products, clothing etc.). Corporate strategies, goals and philosophies are openly announced and are therefore visible, but these do not automatically correspond to the actions themselves. Hence, in order to achieve deeper understanding how espoused values are connected to the behaviour at the artifactual level, it is important to take the least visible category into consideration. The least visible category is the basic assumptions that are the unconscious beliefs, which are taken for granted. In addition to this are also thoughts and feelings that underlie how the group acts. Therefore, the ultimate power of the culture positions here, as it is difficult to change these assumptions.



Hofstede (2001) points out that since culture has a historical basis and is socially constructed, it can be described as a product of successful adaptation to the environment. If there is going to be a change that might occur due to M&A or a change in a company's strategy, there will be resistance to it. This means that during an M&A deal when companies try to modify another's corporate culture, they may face difficulties on the way. If these difficulties are not successfully overcome, M&A often fails as a result of managers underestimating the importance of the people factor and cultural fitness.

## **4.2 Cultural Integration in Cross-border M&A deals**

Companies have different corporate cultures, values, operating styles and philosophies due to different external environments and different backgrounds. When cross-border M&A deal occurs, the primary task of the company becomes the integration of the resources and operations. The integration process is highly critical stage for the success of M&A deal.

As earlier mentioned, cultural differences in cross-border M&A deals are not only narrowed to the company level, but can also happen on a national level. The difference can arise from differences in countries, nationalities, or companies. These differences can help companies expand their development if approached properly. The cultural integration in M&A deals can eliminate conflicts that mainly arise from cultural differences by classifying and merging the values and by merging modes of behaviour and other forms i.e. machinery units (Harvard Business Review, 2001).

By using cross-border M&A cultural integration companies seek to reduce cultural differences as much as possible in the acquired company. Hence, no matter if the cultural integration is successful or not, it is certain that it is essential to the success or failure of a cross-border M&A. Normally, the following arising issues should be taken under consideration in cultural integration of cross-border M&A:

- 1) Coordination of cultural differences of country and people to promote understanding, which includes: communicating (between different groups/departments in companies) and avoidance of the negative

influences that arise from the dissimilar values, thinking models and behaviours.

- 2) Coordination of the different corporate cultures in order to eliminate the following barriers: leadership styles, personnel systems, communication models, performance appraisals, and social security benefits.
- 3) Establishment of the company's core values. This should happen by integrating diverse cultures in order to improve company's competitiveness and creativity and thus achieve competitive advantage.
- 4) Integration of the companies' cultural effectiveness. This can create an environment that is beneficial for the integration of operations.

This also indicates that cultural integration of cross-border M&A has an important function in maximising capital and sales, improving operational techniques and forming other advantages. Integration challenges are influenced by the corporate cultural differences between the companies as well by the differences of their national cultures (Angwin, 2007).

Corporations are unavoidably influenced by the culture of the country that they are situated in. Cross-border M&A transaction build up a situation of cultural diversity where the developing and carrying out the cultural process of integration is highly important. In other words, the culture of multinational company becomes more complex since different cultures collide and merge with each other and it does not only depend upon the culture of one country. Hence, it is necessary for the companies that deal with an M&A transaction to carry out cross-cultural process to integrate effectively the cultural differences and their resources.

The cultural integration of a cross-border M&A deal is a process that coordinates cultural diversity and creates harmonisation within a company. Nevertheless, cultural integration is a complex process that forms a new model of corporate culture within a company by selecting, absorbing, and integrating cultures. Cultural integration in cross-border M&A deals with larger cultural and organisational differences can provide more opportunities, but also additional challenges in realising these opportunities. Therefore, companies involved within a new culture should find an integration mode that it is suitable for both sides of the deal, and not only aim to transfer its culture to the merged or its acquired company. Cross-

cultural management is the most effective way of carrying out a successful cross-border M&A.

#### **4.3 Managing the process of post-deal cultural integration and identifying cultural differences**

Managing cross-cultural integration of M&A transactions by choosing suitable model of cross-culture management can overcome possible conflicts and unwanted influences in a post-merger process. This can also help companies to achieve results such as converting the negative situations into positive ones, and achieve power of the cultural synergy (Picot, 2002).

The basic steps of cross-cultural management in post-merger integration are in understanding and respecting the other cultures, stressing the importance of communication, and generating adaptive changes. As earlier showed, culture reflects throughout people's behaviour and way of thinking. For companies to gain valuable ability to adapt to the new environment, it is necessary for the management to actively be involved in learning process of the culture of others. This will give a different insight into problem-solving and decision-making perspectives and will increase flexibility between management styles for its employees across borders.

In the cross-border M&A deals, management plays a major role when it comes to the cultural integration. The clashes of the differences of the management styles in M&A deals can be the biggest reason of the deal failure. Differences of the management styles are again mainly influenced by a corporate culture. Already analysed in terms of national culture dimensions, companies are different in management cultures, have different preferred ways of running their business over time, which are based on members' shared history and experiences.

Cultural integration needs to be planned before the post-deal process starts to prevent possible setbacks. The situation where management assumes that they already have an understating of the cultural differences between their companies and prospective partners, mainly if their businesses operate in the same industry easily can turn out to a concern. The issues regarding insufficiently planned integration can also occur during companies' inner conflicts. This proves that only

superficial analyses are not enough to carry out cultural integration (PwC M&A Integration Survey Report, 2008). Therefore, in the planning phase of a cross-border M&A deal, identifying and analysing the values, artifacts and assumptions of companies, will provide them with important findings to evaluate the cultural gap between them. This will support post-deal integration towards well-coordinated focus towards success.

Going into more details, managers, negotiators or employees are not the only ones who are affected by cultural differences. Affected are also divisions that stay in their home company who experience contacts with foreigners when using up-to-date communication and information technology e.g. teleconferencing, videoconferencing etc. This indicates that mutual cooperation between parties is important in order to achieve successful integration. Communication is highly required when cooperating. To achieve successful communication as a part of a cross-border M&A integration, it is important to identify cultural differences and deal with them accordingly. Authors Schneider and Barsoux (2003) have identified three different strategies to do so. They have identified the following when managing cultural difference: ignoring, minimising or utilising.

Schneider et al (2003) introduce ignoring cultural difference as “operating on the assumption that business is business” and that “managers, engineers, or bankers are the same throughout the world” (Schneider (et al. 2003), p. 256). By choosing this strategy, companies assume to unite in management practice and technological development (desire for modernisation).

The minimising strategy is the second strategy of impact of cultural differences. It stands for “finding ways of homogenizing cultural differences, creating sameness, or isolating them and creating segregation in order to reduce potential conflict” (Schneider et al (2003), p. 259). In a more simple way, when companies choose this strategy, they are aware of the cultural differences but intend to treat them as the source of potential difficulties and conflict. This strategy can be performed in several different ways. One of the ways is a strong corporate culture that is used to serve as a tool to reduce the impact of the different national cultures. This can be achieved by either creating global universal culture such as assigning senior management from the main company culture to be responsible for the local

division, or by maintaining strong relations between employees, i.e., when sending employees abroad to scan and train foreign workers. Cultural segregation, isolating different cultures and thus avoiding clashes is another way of performing this strategy. This way of performing can be done by giving the local company their independence (giving control over decisions how to do things). In this sense, the headquarters express what is expected to be done, where local division has the power to decide how to do it. Creating regional headquarters is the third way of minimising strategy. This way of action helps in improving coordination between national organisations, and in reconciling between local conditions and global strategic headquarters.

The third strategy for identifying cultural differences is utilising these differences. Utilising differences strategy is done with introducing different kinds of matrix structures. Company managers should be a part of developing global plans where their field of influence should be enlarged. This could also include expansion of their responsibility in coordinating and expansion of career opportunities beyond their local operation (Schneider et al (2003), p. 266-271). With the strategy of utilising cultural differences, in order to build the proper balance between responsiveness to the local needs and main control centres, managers need to have crucial competencies such as interpersonal skills or language competency. All three strategies are summarised in the following table.



TABLE 5: Strategies for managing cultural differences (Schneider and Barsoux (2003), p. 255)

	<b>Ignore</b>	<b>Minimise</b>	<b>Utilise</b>
<b>Assumptions:</b>	Culture as irrelevant	A problem/threat	An opportunity
			A source of competitive advantage
<b>Headquarter/subsidiary relationship:</b>	Ethnocentric	Polycentric/ regioncentric	Geocentric
<b>Expected benefit:</b>	Standardisation	Localisation	Innovation and learning
	Global integration	Responsiveness	
<b>Performance criteria:</b>	Efficiency	Adaptability	Synergy
<b>Communication:</b>	Top-down	Top-down	All channels
		Bottom-up reporting	
<b>Major challenge:</b>	Gaining acceptance	Achieving coherence	Leveraging differences
<b>Major concern:</b>	Inflexibility	Fragmentation	Confusion
	Missed opportunities	Duplication of effort and loss of potential synergy	Fiction

Author Adler (1997) has a similar approach to this subject. Adler identifies three strategies which are named as following: parochial, ethnocentric and synergy. All of these approaches can be compared with Schneider and Barsoux's (2003) methods.

Parochial strategy is comparable with Schneider et al (2003) ignoring method, ethnocentric strategy with minimising and synergistic with utilising. Parochial

strategy means accepting only own way of approaching things as the only way there is while choosing to ignore cultural diversity or its impacts on the organisation. With ethnocentric strategy managers recognise cultural diversity that is seen as source of problems, where doing things their own way is the best way there is. The third strategy is the synergistic approach where cultural differences are seen as leading to both advantages and disadvantages, where managers are certain that it is possible to combine and create the best way of doing things, taking elements from combined cultures in the organisation. A table summarising Adler's approach can be found in appendix 1.

When dealing with cultural differences it is very difficult to choose the right strategy. The choice of strategy depends on goals, purpose and on situation of the company. Companies and managers should be aware of the cultural differences in order to achieve positive results and successful outcome.

When dealing with M&A transactions, the aspects of the process of cultural integration should be already dealt with in the planning stage of the deal. This way companies can increase the efficiency and the effectiveness of the cultural integration and more easily overcome issues that can occur. Hence, in cross-border M&A deals the buyer should respect the culture of the target company, and try to understand the target's culture. Companies should not use their gained cultural values to judge the others culture, but should combine the company's strategic implications with its culture. After a cross-border M&A deal is set, establishing a new culture is the combination of different cultures.

## **5 Business Case – The Chrysler Corporation & Daimler-Benz merger**

The background theory in the previous parts has shown the significance of M&A in cross-border businesses and how culture and cultural differences play a big role in the success of M&A. The attention is focused on the cultural integration and managing this process in cross-border M&A deals, which proved to be one of the crucial parts in the outcome of companies deal.

The following case from the business world, the merger of Chrysler Corporation and Daimler-Benz, will provide more description and importance of culture and cultural differences by applying the theory to practice.

The case is founded on already existing articles in Time (1999), L.A. Times (1999), Darling, Seristö and Gabrielsson (2005) and ICFAI Canter for Management Research (2003).

### **5.1 Case Background**

On 6 May 1998, the agreement on merger between Chrysler Corporation and Daimler-Benz AG was signed. This was then announced the following day to the public as the merger of equals. This merger happened just a few months later after Juergen Schrempp, Chairman of Germany-based Daimler-Benz, on 12 January 1998 suggested a merger to Robert Eaton, Chief Executive Officer and Chairman of the American-based Chrysler Corporation (Time (1999)).

The name of the merged companies was agreed to be Daimler-Chrysler AG. Daimler-Chrysler AG became the largest industrial merger at that time with \$ 92 bn market value, annual turnover approximately at \$ 130 bn and 421 000 employees worldwide. With this merger the company became the fifth largest car producer in the world.

Some of the basic agreement terms were as following:

- The headquarters was dual, based in Michigan (USA) and incorporated in Germany

- Each partner of the Daimler-Chrysler AG had a voting power and newly established Management Board had nine executives
- Daimler-Chrysler was co-chaired by the chairman of the Daimler Benz management board, Juergen Schrempp and CEO of Chrysler Corporation, Robert Eaton
- Shareholders Daimler-Benz were to own 58 % and shareholders of Chrysler the remaining 42% of the new stock
- Daimler-Chrysler AG decided to use the current brands with the same names as so far, which were: Mercedes-Benz, Chrysler, Jeep, Dodge, Plymouth, Sterling, Freightliner and Setra

The CEOs were enthusiastic and positive about the future of the merger, and they predicted several profits in financial sense; expectations in 1998 were at the post-merger increase in sales predicted to reach 13 % with first- year cost cuts of \$ 1.4 billion, rising to \$ 3.5 billion in annual savings within two to three years (ICFAI Canter for Management Research (2003)).

Chryslers' reasons behind the merger was the expansion to the other markets and financially strong partner. On the other hand Daimler-Banz was financially stable and one of the largest companies in Germany. Daimler-Banz reasons behind the merger were ensuring stable growth and stability in the future. Company needed to extend its reach into other market segments and an outside partner to enter the new markets.

With the exceptions of the staff functions in finance, purchasing, HR, and IT, Chrysler Corporation and Daimler-Benz were to continue to run their main business functions separately. CEOs R. Eaton and J. Schrempp were both proud of the fact that the merger was so quickly implemented to the companies. After the first year of combined operations, according to the letter that was send by Eaton and Schrempp to the company's shareholders, after the first year of the merger revenues grew by 12 %, the operating profits by 38 %, the net income increased by 30 %, 19,000 new labour positions were created, and over 4.4 mil vehicles were sold (Time (1999)).

At the same time the disagreements and conflicts between the partner companies were growing. The two companies were separated by geography, tradition and national culture before the merger. Both companies had their own strong historical heritage and because of this both companies were deeply respected in their nations, and both were very protective of their corporate identity. The companies had very different corporate cultures, which were based on different national cultures. As for example, Daimler-Chrysler workers in Germany used to take several company-sanctioned breaks to go for a beer during working hours. In the USA, this kind of practice would raise the noise of alcohol-related accidents and legal liability. And still, Daimler-Chrysler's chairman J. Schrempp had a bar installed in his new office, so that he could enjoy his European working environment, despite to the amazement of his American colleagues (Darling, Seristö and Gabrielsson (2005)).

Another cultural conflicts related to the aspect of corporate cultures between Germans and Americans, was that Germans embraced formality and hierarchy, and well-structured decision-making unlike Americans who favoured free-form discussions and casual names. In general, this proves that companies were very different by their culture.

The result of this was that a number of top managers in USA left the company or were fired from Chrysler; Chrysler's executive vice president for manufacturing D. Pawley, one of the most respected manufacturing executives in the auto industry retired at the end of 1998; in the beginning of 1999, two key vice presidents of Chrysler moved to Ford Motor Company; Daimler-Chrysler's vice president for public affairs shifted to General Motors during 1999 and in September 1999, Daimler-Chrysler's North American president was fired. Company's co-chairman R. Eaton retired one year earlier than planned (March 2000) which left Schrempp in sole control of Daimler-Chrysler (ICFAI Center for Management Research (2003)).

With a number of top executives, Chrysler also lost the reputation for creativity, efficiency and profitability. During that time, it became clear that the merger of equals was actually turned into German acquisition of an American company. After Eaton's retirement, Schrempp began replacing Chrysler's top executives with

German managers. First replacement happened to J. Holden who was Chrysler's second post-merger president. He was replaced with former Mercedes-Benz executive D. Zetsche. After that, German engineer W. Bernhard filled in the position of Chrysler's chief operating officer (ICFAI Center for Management Research (2003)).

Financial performance of Chrysler had also dramatically dropped. During 2001, the company lost hundreds of millions of dollars. Even more production shutdowns were forecasted by the end of 2000, as the orders from dealers slowed down. The new Chrysler's president D. Zetsche had announced a restructuring plan, which initially had predicted worker redundancies, production cutbacks, and other cost-cutting processes. Still, the leaders did not try to identify the cause of the problems that Chrysler was facing, neither before the merger, nor in the post-merger phase. Nobody has paid attention to the cultural differences that were causing clashes between the Germans and the Americans.

## **5.2 The Analysis**

The merger happened very quickly, involving both sides of the deal. At the time, this was the largest industrial merger in history with generally positive remarks and matching effects on the financial markets. The agreement on merger of Daimler-Benz and the Chrysler Corporation was originally deliberated as a corporate merger of equals. International media and financial markets viewed this merger at the beginning as a strong alliance and a very powerful business strategy move. Everything was looking promising after the first year of post-merger operations (e.g. revenues grew 12 %, 19,000 new jobs were created etc.).

The first outcomes and problems of unsuccessfully carried out post-merger integration were starting to show as key executives, who were credited with Chrysler's success, were changing to different companies or retired because they were no longer part of the new organisation. The unsuccessfully carried out post-merger integration showed in a major miscommunication in the company, lack of ability to overcome major cultural differences and mismanagement between workers. Eaton's retiring also left Schrempp as Chairman, and in sole control of

Daimler-Chrysler that boosted Chrysler's position towards shutdowns and major post losses. This also increased doubt amongst shareholders.

The biggest errors, which were distributed by Daimler-Chrysler's managers, were that there was no cultural audit that needed to be conducted before to the merger deal. It is analysed that the human factor was forgotten or ignored, as neither the shareholders nor the employees were involved in the process.

On to the second point, during the pre-merger negotiation phase, Americans and Germans were paying no attention to subtle cultural differences. As earlier in the paper showed, those differences commonly appear and cause difficulty during the integration process, if not investigated on time. Therefore, the differences in culture between American Chrysler and German Daimler were largely responsible for post-merger long-term failure.

Operations and management of the new company were not successfully integrated as 'equals' in the merger because of Americans' and Germans' different ways of working and approaching. Americans' way of working is more in comfort with of challenging their managers or giving them advice. Germans, on the other hand, practice more autocratic and top-down management techniques. Managers are expected by their employees to provide them with certain instructions that they follow without questioning or interfering (Adler, 1997).

Hence, Chrysler preferred a more relaxed, freewheeling style of management style, while Daimler-Benz's culture stressed a more formal and structured mode. When merged, Chrysler's employees became particularly dissatisfied with Daimler's efforts to take over the entire company and integrate their corporate culture on the whole company. These planned synergies were never achieved and instead, Daimler-Benz perceived Chrysler as a potential competition.

Nonetheless, the main result in this deal was that the merger of Chrysler Corporation and Daimler-Benz was never really a merger of equals. This became most apparent when Chrysler's executives were starting to be replaced by the German management with their local managers.

Neither part of the merger paid much attention to the basic cross-cultural clashes, which was a key role in causing Daimler-Chrysler to fall from highly valued business venture to a company that still experiences consequences of this. While analysing this case, it is easy to recognize that Daimler-Chrysler management did not study enough previous business cases that are related to cultural clashes in cross-border mergers. They also made a mistake by underestimating the role of culture in the post-merger integration and stakeholder perspective, making assumptions – same industry same corporate culture.

Before the deal actually happened, companies should have in the planning stage of the merger carried out a detailed evaluation of the merging organizations' cultural norms, beliefs, and values in order to evaluate their compatibility. This would have prevented the failure of successfully integrating the two very strong but different organisational cultures that were hoping to become partners in achieving of the goals and objectives of a merged cross-cultural global corporation.

Companies should have worked on the issues of coordination of cultural differences between cultural differences of Germans and Americans on a national level, and differences between people in the companies. This should have included communication between groups in order to promote understanding and avoidance of the negative influences (arising from dissimilar values, thinking models and behaviours).

Companies should have prior finalising the merger deal analysed and established what a new company's core values are and set an environment that is beneficial for the integration of operations. Both Chrysler Corporation and Daimler-Benz AG were supposed to coordinate their different corporate cultures before merging into Daimler-Chrysler that would have overcome barriers they faced in the post-merger phase i.e. leadership style differences.



## **6 Recommendations - Proactive solution in preventing cultural conflicts**

From the research on this subject, it occurs that internationalisation affects the social structure changes and as new technology appears on a daily basis, companies tend to enter cross-border M&A more often, which can be risky for the business. Observing the case of Chrysler Corporation & Daimler-Benz showed that two well-known brands can fail to merge if not successfully integrated. When companies deal with cross-border M&A transactions in order to survive post- deal integration and boost businesses growth, companies can analyse effectively both organisational sides and recognise possible issues in an early stages of the deal (deal planning stage) as a proactive solution in preventing cultural conflicts. The following points should companies be focused on when carrying this analysis:

### **1) Initial planning**

With the initial planning, company is recommended to determine the objectives they want to achieve. In this stage it is recommended to prepare their organisation for future steps by creating a team that will be responsible for carrying out the cultural due diligence and creating a list of necessary data. In the initial planning, company should identify its possible issues in the organisation that could conflict with the other party and estimate what information will be needed from the other party.

### **2) Cultural assessment of the organisations – evaluating cultural fitness**

Before the cross-border M&A deal is going to take place, company that is hoping to expand across borders by a merger (or in the other cases, one company is going to acquire international company) it is recommended to evaluate the compatibility of the two cultures emerging. This will provide the companies an insight if the cultures can be combined or in the other words, how far are they from each other. Even though this is time consuming, carefully studying and systematically analysing the cultural features of the companies – national and corporate cultures – can turn out to be of a great importance for the future of the deal and this way avoid failure in business.

### 3) Integration Plan

Integration plan should include all detailed steps of the integration of the two cultures mainly reflecting to the key findings from cultural evaluating fit. Integration plan is recommended to consist of full cultural assessment information that is based on measurement of the integration progress and cultural implementation elements i.e. communication between co-workers.

## 7 Conclusion

Companies today want to achieve competitive advantage and expand to the international markets more rapidly, and one of the expansion strategies is through mergers and acquisitions. Companies see M&A as a quicker way to enter new market and reach a foreign scope.

During the last years there have been numerous mergers and acquisitions of a high value. But for some companies, this form of expansion did not bring the wanted results. Researches show that up to 83 % of the deals fail in achieving their objectives. This mainly has negative influence on the shareholder value and companies reputation i.e. consumer trust, losing potential partners, falling from the list of most successful companies.

Some of the reasons of these failures are connected to the ignoring of cultural differences and underestimation of corporate cultural issues between companies. When dealing with M&A, each company must integrate successfully in order to achieve positive results. Integration is done through the corporate cultures between dealing companies and especially in cross-border transactions, where different national cultures have an additional effect.

Dealing with a new partner or an acquired company, communication becomes very a important tool and the choice of strategy to identify cultural differences essential. There are quite a few strategies to identify cultural differences identified by several authors. Schneider and Barsoux (2003) came up with ignoring, minimising or utilising strategies, while Adler approached the subject with similar strategies named: parochial, ethnocentric and synergy. The choice of the strategy depends on company's goals, purpose and situation.

The cultural integration and identification of cultural differences is a time consuming process, where it is necessary to recognise the sources of possible cultural clashes and learn to value the differences. This will help to understand others' culture and achieve successful integration in the new-formed company. To be able to achieve this and be rewarded with a positive outcome, it is necessary to

carry out cultural due diligence and before heading to the finalisation of the deal, organise a sufficient integration plan.

The Chrysler Corporation & Daimler-Benz merger - case showed how it is important to communicate with the employees, but more importantly to evaluate cultural compatibility prior entering the M&A deal finalisation and integration. Cultural difficulties occurred between formal and well-structured Daimler-Benz and more flexible style of Chrysler.

In the Daimler-Chrysler case, the existence of cultural differences such as different working styles, decision making and communication processes were ignored which caused top executives on America's side to leave the company. That further had an influence on losing the reputation of creativity, efficiency and profitability of the company. The incompatibility of the two companies with two different cultural aspects was recognised too late, and therefore it was very difficult overcome them. At the end it was clear that this was no 'merger of equals' but one company dominating over the other. This proved how important it is to consider cultural differences and be aware of them before entering into the further engagements especially in signing and finalising an M&A deal. The Daimler-Chrysler case is a good example for future cross-border M&A deals in any industry concerning the avoidance or underestimating the cultural integration.

To conclude this study, author makes a citation of the following statement:

*"Why do deals continue to fall short in creating real value? They don't have to. The secret to success lies in the early planning and timely execution of integration tasks."* (PwC M&A Integration Survey Report, 2008, p.2)

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## 9 Appendices

### 9.1 Appendix 1

Table 6: Perceiving and Managing the Impact of Cultural Diversity on Organisations (Adler, 1997, p. 105)

Type of Organisation	Perception	Strategy	Most Likely Outcomes	Frequency
	What is the perceived impact of cultural diversity?	How should the impact of cultural diversity on organisation be managed?	What outcomes can managers expect with this perception and strategy?	How common is each of these perceptions and strategies?
<b>Parochial</b> Our way is the only way.	<b>No impact:</b> Cultural diversity has no impact on organisations.	<b>Ignore differences:</b> Ignore the impact of cultural diversity on organisations.	<b>Problems:</b> Problems occur but they are not attributed to cultural diversity.	<b>Very common</b>
<b>Ethnocentric</b> Our way is the best way.	<b>Negative impact:</b> Cultural diversity causes problems for organisations.	<b>Minimise differences:</b> Minimise the source and impact of cultural diversity on organisations. If possible, select a monocultural work force.	<b>Some problems and few advantages:</b> Managers reduce problems by reducing diversity; they ignore or eliminate the advantages.	<b>Common</b>
<b>Synergistic</b> Creative combinations of our way and their way may be the best way.	<b>Potential negative and positive impacts:</b> Cultural diversity simultaneously leads to problems and advantages for organisations.	<b>Manage differences:</b> Train managers and employees to recognise cultural differences and use them to create advantages for the organisations.	<b>Some problems and many advantages:</b> Managers recognise and realise the advantages to the organisations from cultural diversity. Some problems continue to occur that need to be managed.	<b>Uncommon</b>

## 9.2 Appendix 2

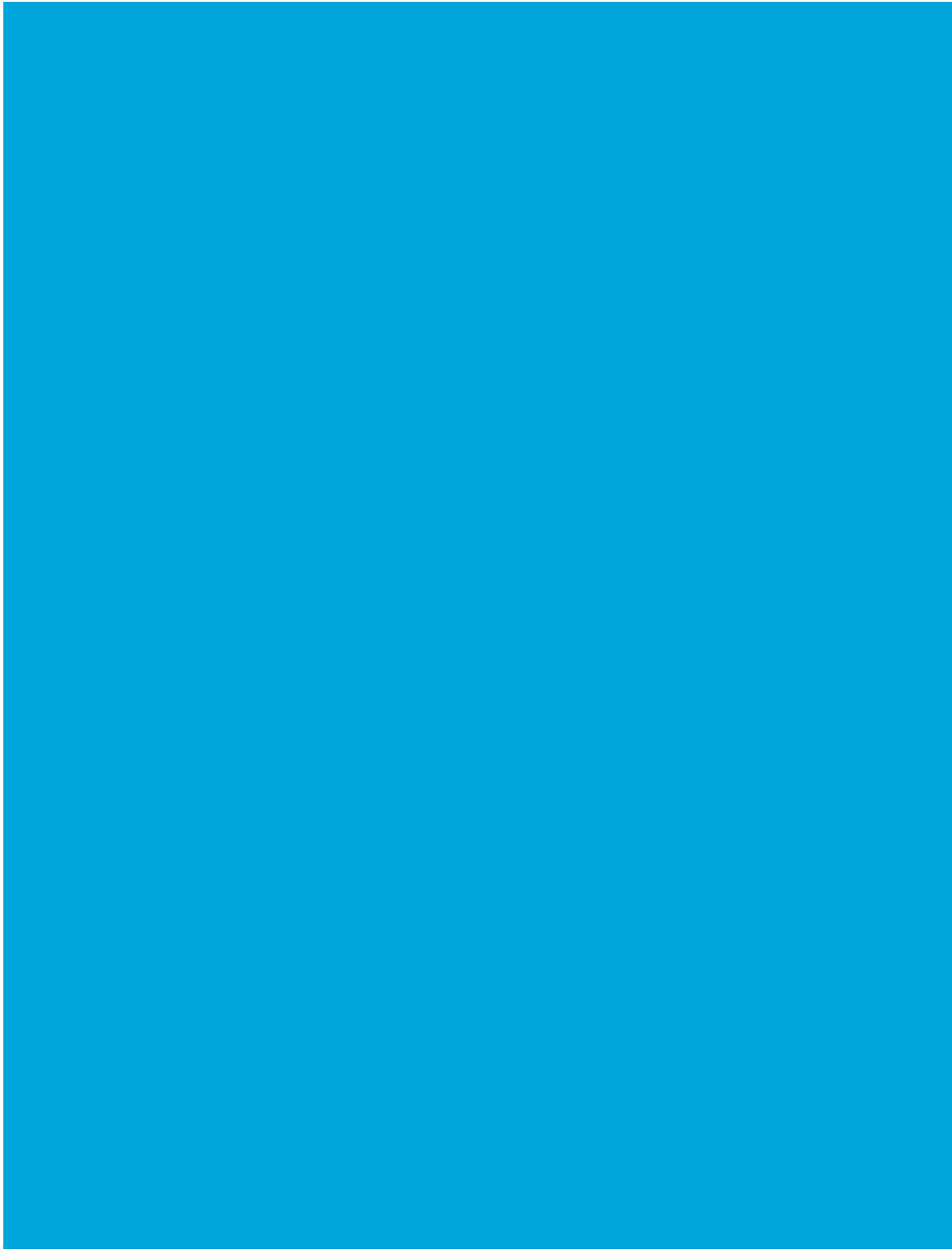
# Speed of integration improves M&A success\*

PwC M&A Integration Survey Report 2008



\*connectedthinking

PRICEWATERHOUSECOOPERS 



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The heart of the matter

Why do deals continue to fall short in creating real value? They don't have to. The secret to success lies in the early planning and timely execution of integration tasks.

While there may be many reasons for pursuing a merger or acquisition, it's ultimately about creating long-term value for shareholders. That's what doing business—and deals—is all about.

Yet far too often real shareholder value is lost, not gained, after the paperwork has been signed and all the bankers and lawyers have gone home. Achieving financial and operational objectives post close continues to remain elusive.

So why are deals continuing to under perform—even when management sets the right course with a solid strategy?

According to findings from the PwC M&A Integration Survey Report 2008, the early and timely execution of a few key—but fundamental—integration initiatives are directly related to capturing deal value. The survey also reveals a close connection between completing integration activities during a critical window of opportunity—the first 100 days post close—and improved profitability, cash flow and productivity.

Yet despite all the apparent benefits associated with early planning and rapid execution, many executives still report being comfortable taking their time when it comes to the work of integration.

Deals create opportunities to introduce leading practices and redefine business processes and cultures. They also provide the opportunity to boost performance by redesigning organizational structures and systems that otherwise might have remained the same if not for the deal. Deals comprise a sequence of prioritized, interrelated tasks. When organizations understand the interdependencies of integration initiatives—and speed up the execution of integration activities—they can stop leaving deal value on the table and start delivering greater return to shareholders.

The old adage “timing is everything” has never been more true than when it comes to executing a complex merger or acquisition. Done properly, deals can yield a higher shareholder value—perhaps much higher than you ever thought possible.

An in-depth discussion

Deals under perform  
for some very specific  
reasons. It seems buying  
is easy, owning is hard.



In 2008, PricewaterhouseCoopers surveyed senior management from a sampling of large capital and middle market US companies which had completed a merger or acquisition in the past three years. Respondents had direct first-hand knowledge of the issues their organizations dealt with during the M&A integration.

The goal of the study was to understand the current state of M&A integration practice and its impact on management's assessment of deal success.

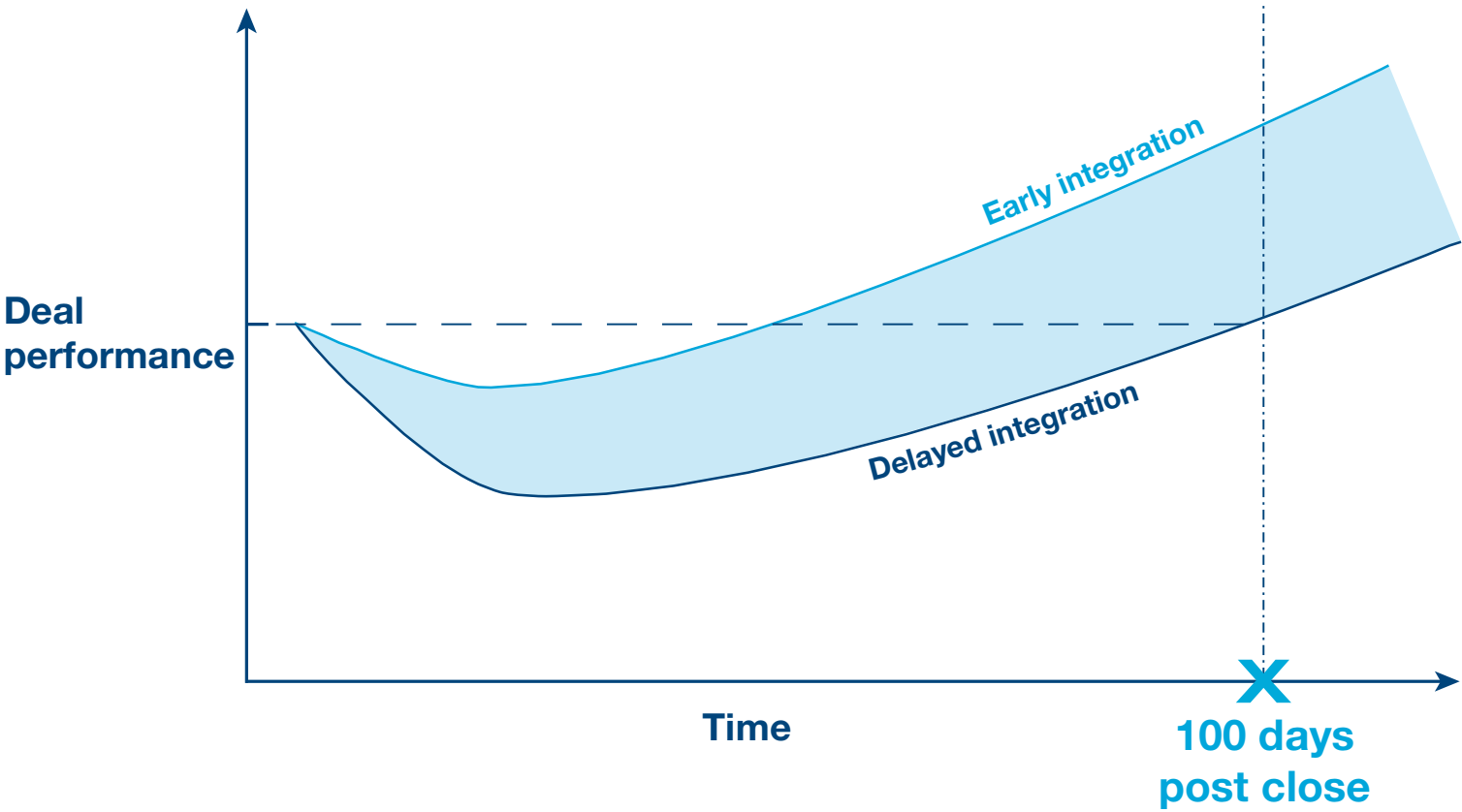
Among other findings, our survey results found higher levels of deal performance when certain integration tasks were started and completed within the first 100 days post close.

Our survey findings are summarized on the following pages.

## Early integration planning—a window for change

Our findings suggest that the time frame in which it is possible to make significant, positive changes is very short. The period from deal announcement through the first 100 days after closing the deal is particularly significant, because it is then that people are most open to new ways of thinking and working. It is essential to set the right course early during the transition, otherwise, attitudes may harden like concrete that sets before it has been poured.

Figure 1. Deal performance is enhanced when key integration tasks are started and completed within the first 100 days post close



## Finding #1 — Strategic goals are easier to reach than financial and operational targets

Survey participants reported far greater success in reaching their strategic goals for a transaction than in achieving a deal's financial and operational targets.

While 64% of respondents characterized recent deals as a significant success from a strategic standpoint, only 44% said they experienced significant success in achieving their post-deal financial goals. Even fewer, just 38%, experienced success in reaching their operational goals.

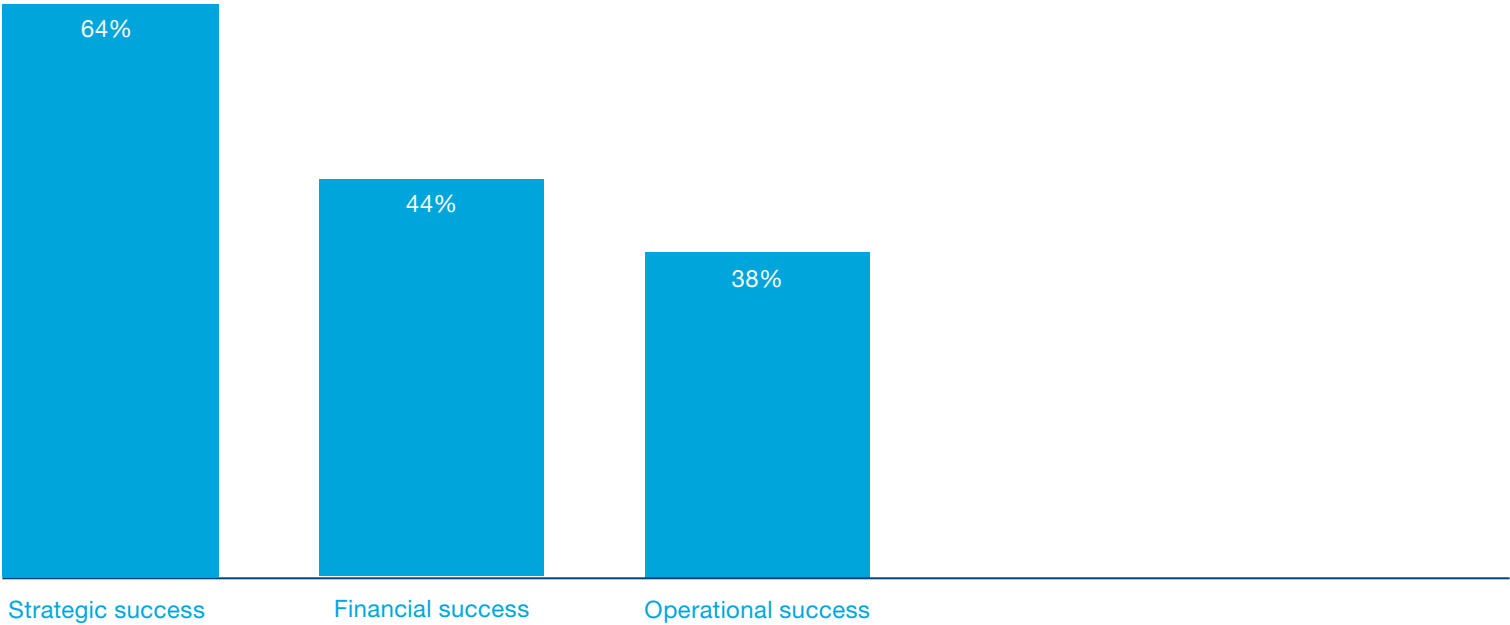
In some ways this finding is far from surprising. The strategic goals set for a deal may actually be easier to achieve than the longer-term financial and operational targets—and our survey results may simply be reflecting that reality.

In fact, a deal's strategic purpose is often realized by the mere fact that the transaction moves forward in the first place. Said another way: the strategy driving a deal gets satisfied when the deal itself gets done.

It is the financial and operational goals, however, that remain the real challenge—which companies so often struggle to accomplish.

**Figure 2. Percentage who agree their most recent deal was a “significant success” strategically, financially and operationally**

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Source: PwC M&A Integration Survey Report 2008

## Finding #2—Buyers don't always get what they ask for

The reasons for doing a deal often differ from the objectives actually achieved.

While buyers reported many reasons for undertaking a merger or acquisition, the two most commonly cited were growing market share and gaining access to new markets.

64% of respondents said growth in market share was a “very important” objective, the highest of all objectives presented. Accessing new markets was the second highest ranked objective at 55%.

By comparison, the deal objectives respondents reported as actually having most “completely achieved” include gaining access to new:

- products (79%)
- technologies (77%)
- markets (75%)
- brands (71%)
- distribution channels (71%)

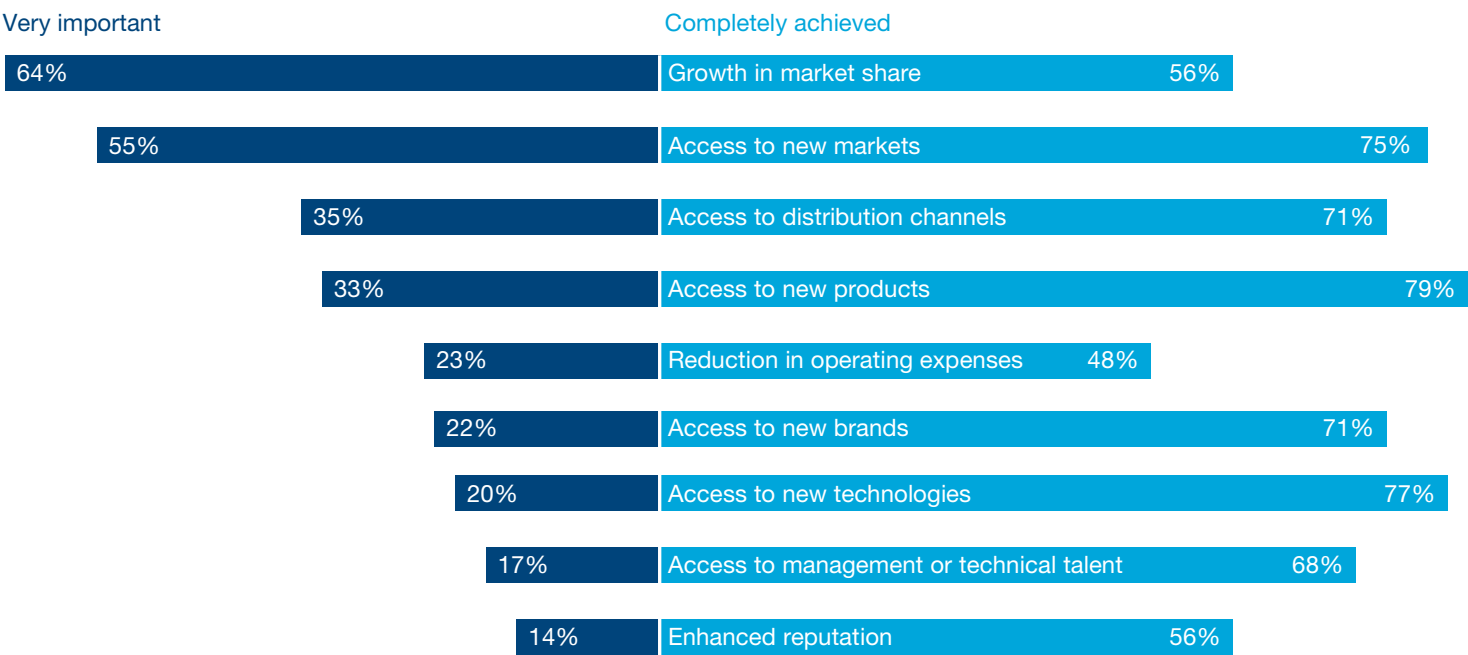
In fact, of the two most common reasons given for doing the deal, only one of them—access to new markets—also made it into the top five objectives reported as being actually achieved.

These results are consistent with data presented in past surveys, and support the notion that companies frequently believe their deals are more successful strategically than they are financially or operationally. Buyers often gain access to new products, technologies, markets, brands and distribution channels simply by doing the deal.

However, financial or operational goals—like growing market share, increasing profitability or cash flow, cutting operating expenses, and enhancing reputation—are harder to achieve.

In fact, reduction in operating expenses is the deal objective least achieved, at only 48%. Its poor showing is indicative of just how challenging it can be for newly combined companies to realize their desired synergies and capture deal value.

**Figure 3. Percentage who report their objectives for undertaking the deal were “very important” compared to the percentage who believe these objectives were “completely achieved”**



Source: PwC M&A Integration Survey Report 2008

## Finding #3—Few succeed where they need to the most

Few organizations report highly favorable results in areas of critical performance.

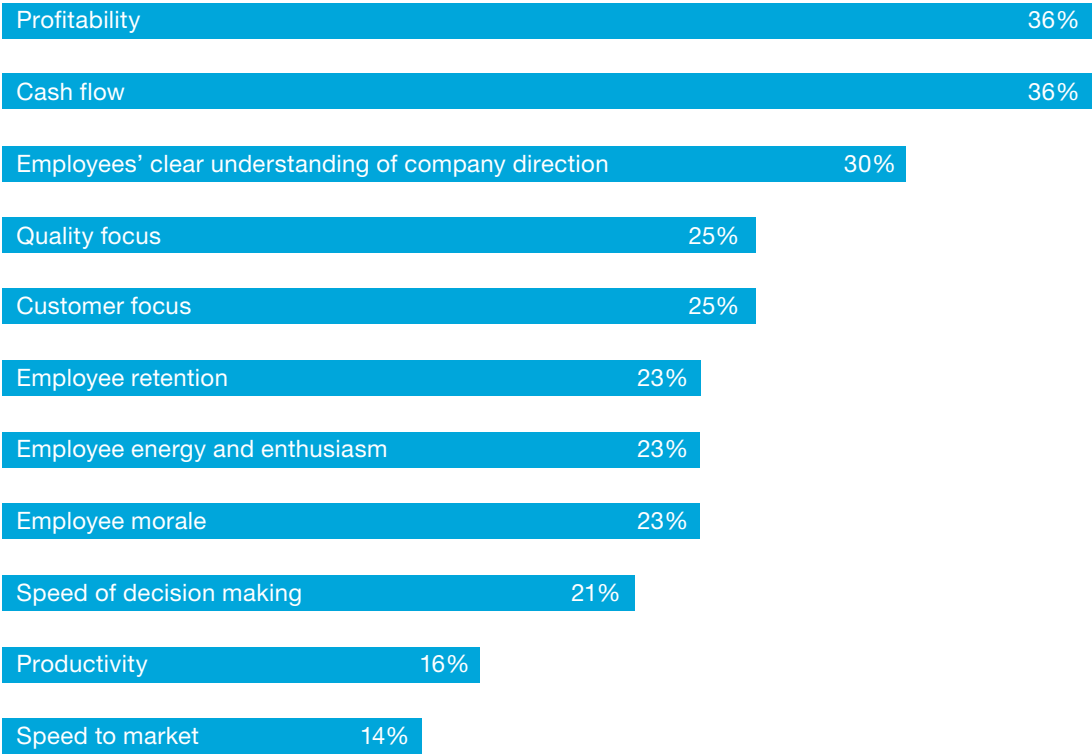
Our survey findings reflect that companies are experiencing less than desirable results in many areas of critical post close performance.

For example, only 36% of finance executives report “very favorable” results when it comes to improvement in profitability and cash flow following the deal. Favorable results were least likely to be achieved in the areas of employee retention, energy and enthusiasm, and morale (all at 23%), speed of decision making (21%), productivity (16%), and speed to market (14%).



**Figure 4. Percentage of finance executives reporting “very favorable” results in key performance areas**

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Source: PwC M&A Integration Survey Report 2008

The first 100 days  
post close: speed  
drives success rates  
through early planning  
and timely execution.

## Finding #4—Faster integration in the first 100 days post close improves profitability and cash flow

While integration efforts often take 18 months or longer to fully complete, our survey results suggest a higher probability of capturing deal value when planning starts early and integration is executed rapidly. In fact, some of our findings show a relationship between completing certain key integration activities within the first 100 days post close and improvements in profitability, cash flow, productivity and other measures.

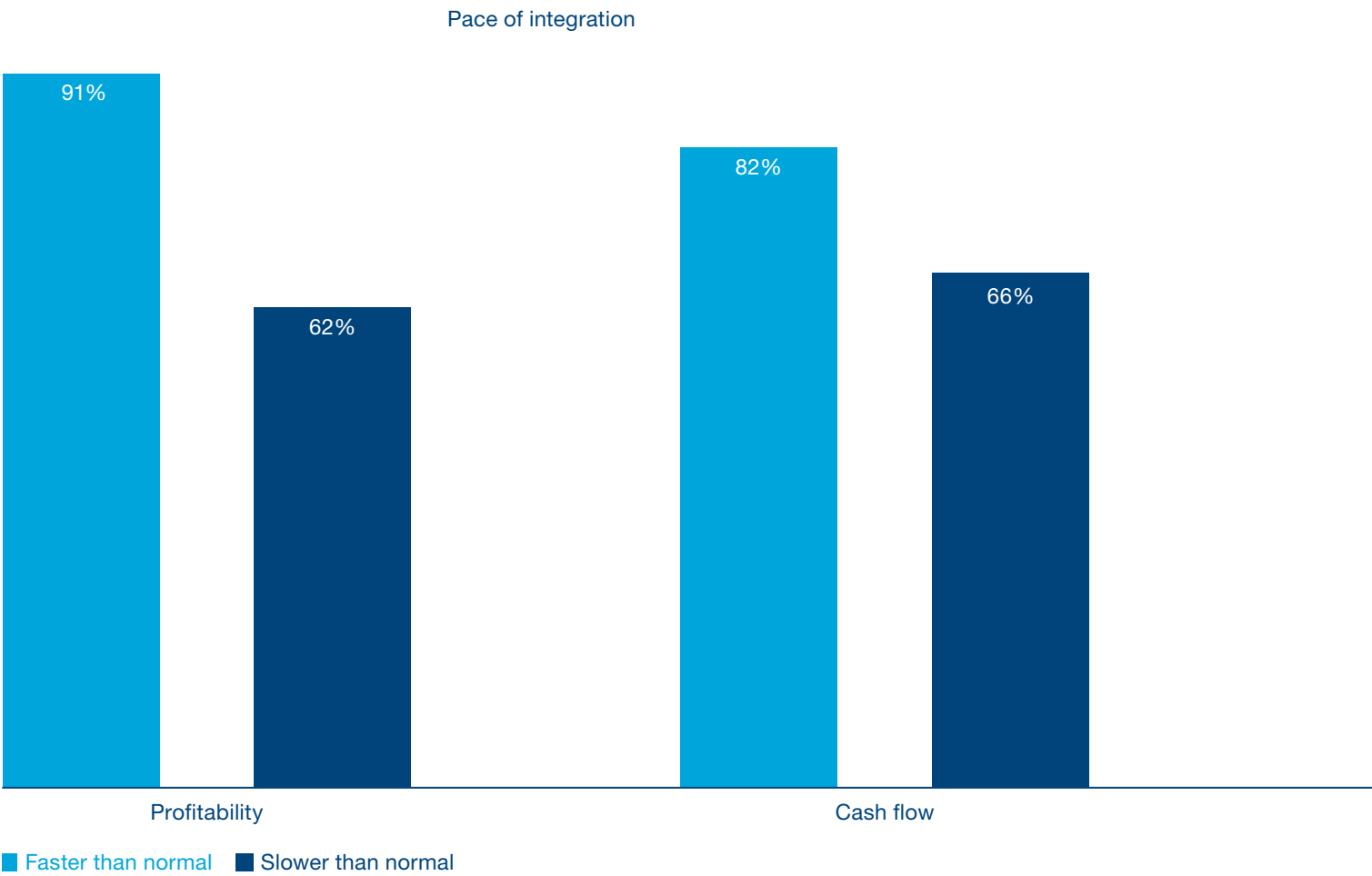
The reported success rate for post-deal profitability and cash flow was sharply higher when integration activities were performed at a “faster than normal” pace than at a pace that was “slower than normal.”

A full 91% of survey respondents said they achieved “very favorable” or “somewhat favorable” profitability results if deal integration work was completed faster than their company’s typical pace of work, as compared to only 62% when work was completed at a slower than normal pace. Similarly, 82% of respondents said they achieved favorable cash flow results when the integration was faster than normal, as compared to 66% when work was slower than normal.

Moreover, profitability and cash flow results were also more favorable when the integration of operating policies was completed in the first 100 days post close.

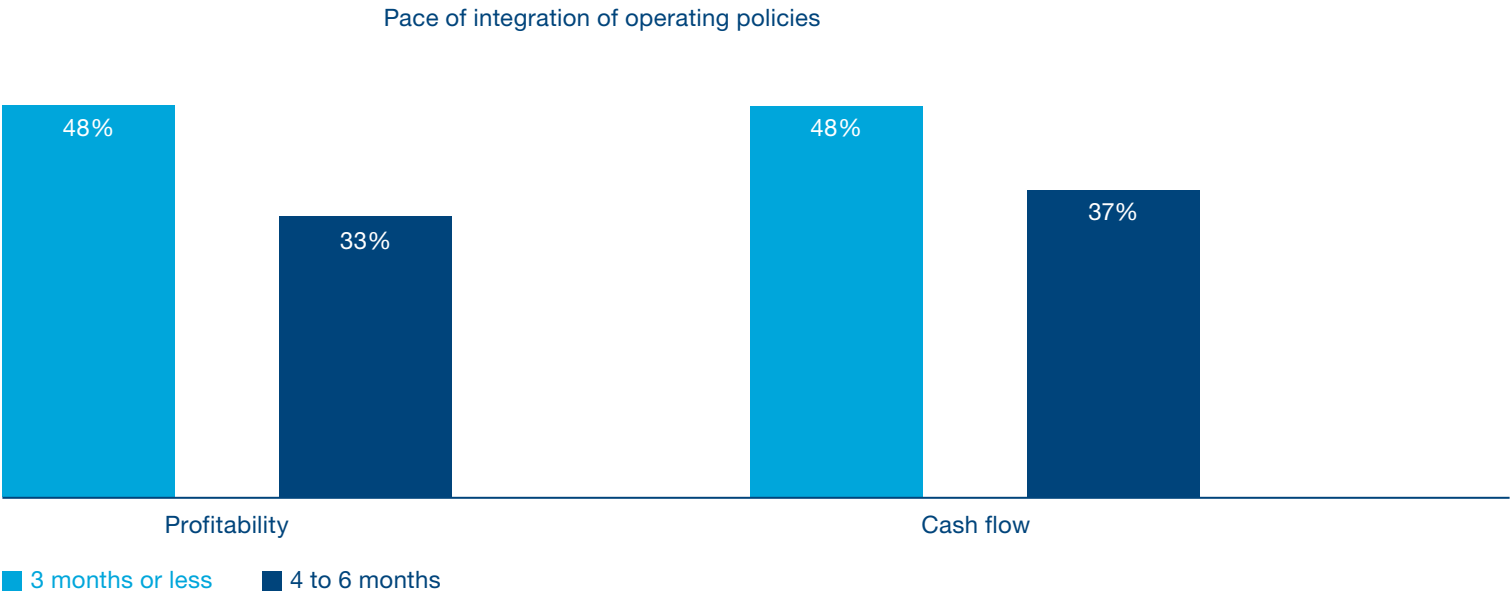
Forty-eight percent of respondents reported “very favorable” profitability and cash flow results when operating policies were integrated in three months or less, compared with just 33% (for profitability) and 37% (for cash flow) for those who took four to six months or more. When operating policies were integrated within the first 100 days post close both profitability and cash flow results improved.

**Figure 5. Percentage who agree profitability and cash flow were either “very favorable” or “somewhat favorable” based upon the overall pace of integration**



Source: PwC M&A Integration Survey Report 2008

**Figure 6. Percentage who agree profitability and cash flow were “very favorable” based upon the pace of integration of operating policies**



Source: PwC M&A Integration Survey Report 2008

## Finding #5—Effective communication in the first 100 days post close improves employee productivity

Effective change communication delivered in the first 100 days post close positively impacts employee productivity, as well as employee energy, enthusiasm, and morale.

Respondents reported that productivity was greatly enhanced if employee communication objectives were achieved quickly. When these objectives were completed in three months or less, 31% reported “very favorable” productivity results, compared to just 7% who took four to six months to achieve their objectives or 9% who required even more time.

The same held true for boosts in employee morale and employee energy and enthusiasm. When the organization fulfilled its communication objectives within the first 100 days post close, 32% of respondents said they achieved very favorable results in both employee morale and energy and enthusiasm, compared to only 13% (for morale) and 20% (for energy and enthusiasm) who required four to six months, and 9% (for morale) and 17% (for energy and enthusiasm) who needed even more time.

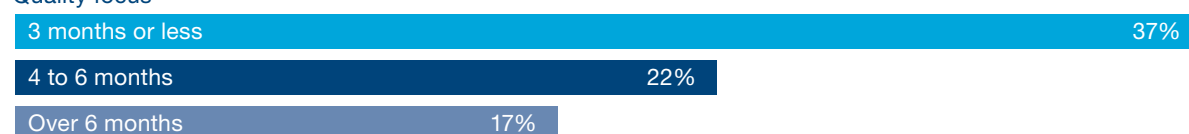
Similar results were reported in other key areas such as speed of decision making and employee understanding of company direction.

**Figure 7. Percentage who agree deal results were “very favorable” in key performance areas based upon time in which employee communication objectives are met**

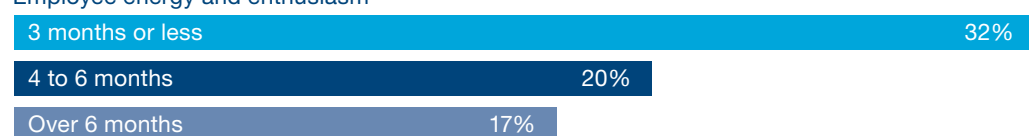
Employees’ clear understanding of company direction



Quality focus



Employee energy and enthusiasm



Employee morale



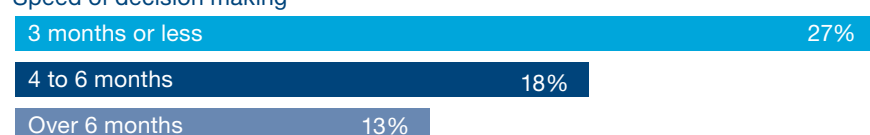
Customer focus



Productivity



Speed of decision making



Source: PwC M&A Integration Survey Report 2008

## Finding #6—Integrating operating policies in the first 100 days post close helps employees focus their efforts

Employees better understand how to focus their efforts when operating policies are integrated within the first 100 days post close.

Quickly integrating operating policies helps solidify an awareness of a company's new direction which, in turn, better positions employees to help the company succeed by focusing their efforts on the things that matter most.

A full 83% of respondents said they achieved favorable results with regard to a “clear understanding of company direction” if the operating policies of the two organizations were integrated within three months or less post close. When the integration took four to six months or more, that figure dropped to 70%.



**Figure 8. Percentage who agree employees better understood their company’s new direction based upon the time needed to achieve the integration of operating policies**

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Pace of integration of operating policies



Source: PwC M&A Integration Survey Report 2008

## Finding #7 — Integration urgency remains low despite the apparent benefits of early planning and timely execution

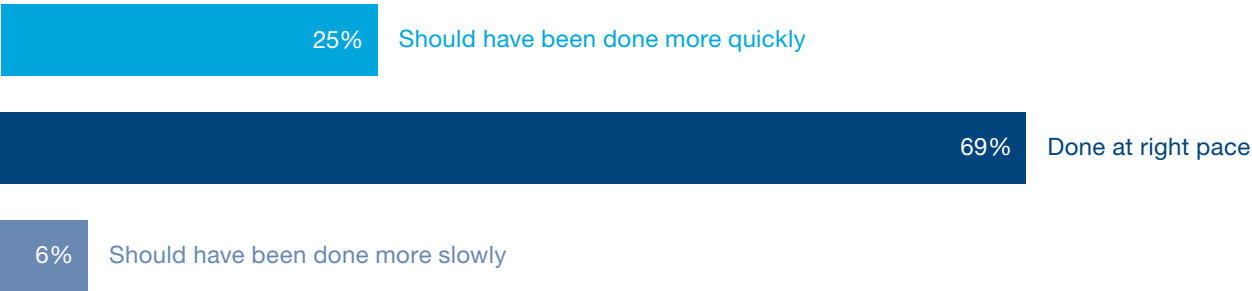
Despite all the benefits associated with early planning and timely execution, most respondents report no sense of urgency to accelerate integration.

Perhaps the most surprising survey finding is that, despite the general lackluster performance reported by respondents and the clear benefits associated with early planning and fast execution, 69% of respondents believe their company's integration work was handled at the "right pace." And most said they wouldn't have changed the speed of execution even if they had the opportunity. Only 25% admit they should have acted more quickly.

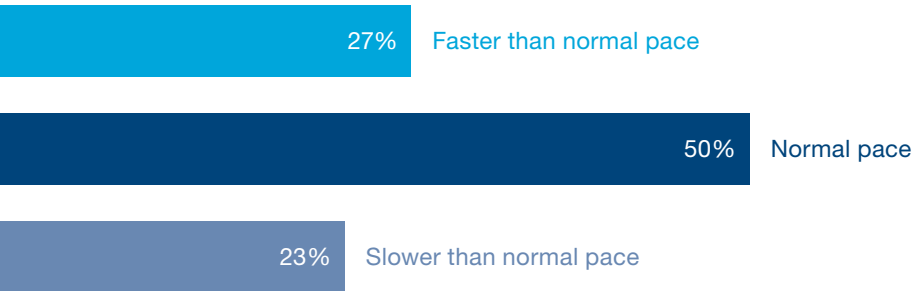
A full 73% said their company operated at a normal or slower-than-normal pace during the post close integration, with only 27% of respondents reporting their organization accelerated its normal operating speed to complete deal integration.

Just 18% of respondents reported they integrated their operating policies within the first 100 days post close. The majority, 82%, said it took their company four, six, eight or more months after close to integrate important operating policies.

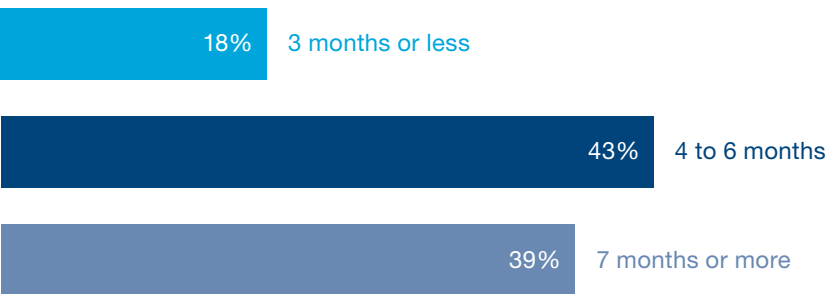
**Figure 9. Percentage who say their recent integration should have been completed “more quickly” compared to those who say it was done at the “right pace” or should have gone “more slowly”**



**Figure 10. Percentage who say integration activities were executed at a “faster than normal” pace compared to a “normal” or “slower than normal” pace**



**Figure 11. Length of time to integrate operating policies**



Source: PwC M&A Integration Survey Report 2008

IT integration and people issues remain the most difficult challenges.

Large-scale changes that are part and parcel of a merger or acquisition carry with them extensive opportunity costs: business may be disrupted and productivity can suffer as employees—confused about today's priorities and tomorrow's direction—spend inordinate amounts of time speculating about the future.

A merger or acquisition provides a temporary window of opportunity for enhancing the organizational structure, redeploying people, redefining roles, streamlining business processes and improving IT systems and reporting tools. However, the ability to quickly bring together the right combination of people, processes and technology to achieve the synergies required for optimal value creation often proves elusive.

## Finding #8—Integrating information systems is often considered the biggest post close challenge

Overcoming the complexities inherent in the integration of information systems, operating procedures, business processes and management practices has proven to be a daunting, disruptive and overwhelming task for many.

Our study reveals that over half of respondents—58%—say information systems integration issues prove to be a difficult integration challenge to resolve. And nearly half of respondents (45%) report that these challenges have directly contributed to “significant” or “moderate” delays in meeting the goals established for the deal.

**Figure 12. Percentage who found integrating information systems to be difficult and those who say it resulted in delays to the overall integration**

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Source: PwC M&A Integration Survey Report 2008

## Finding #9—Addressing people and cultural issues early is essential to capturing deal value

According to the PricewaterhouseCoopers 11<sup>th</sup> Annual CEO survey, 60% of US respondents reported cultural issues and conflicts as their greatest barrier to M&A success.

Larger companies tend to experience the biggest challenges from cultural issues and conflicting workforce expectations. This may be because they are more likely to engage in cross-border mergers and acquisitions than smaller companies. Additionally, key differences across regions were noted, with over half of US respondents (52%) placing more concern on the need to resolve conflicting workforce objectives during mergers and acquisitions than those from other parts of the world.

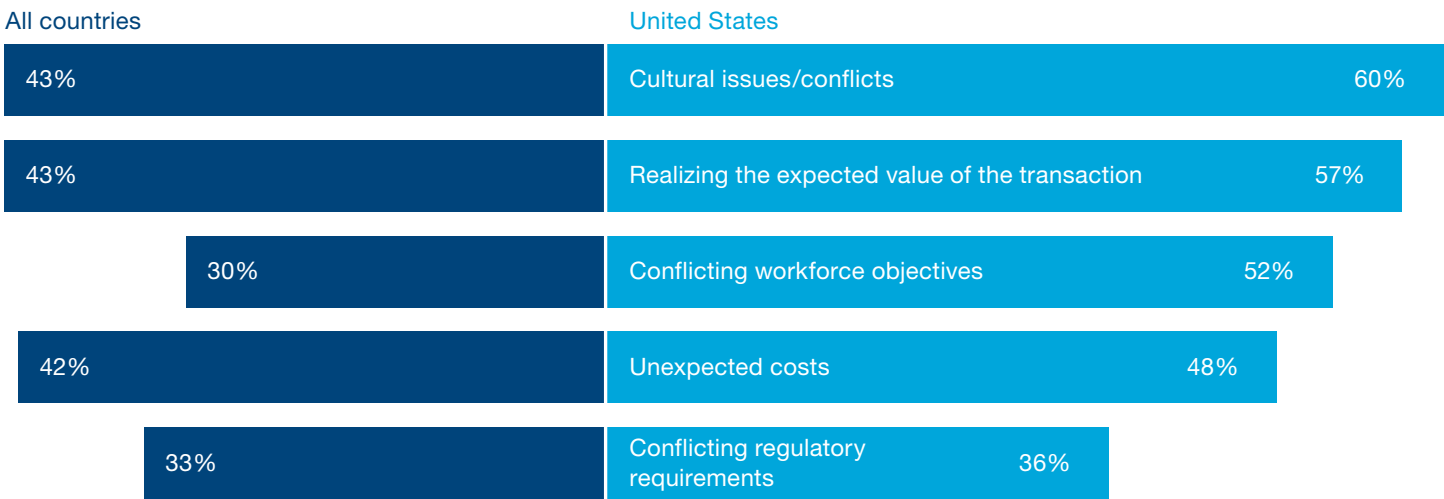
The CEO Survey also found that the broader “people agenda” was one of the top priorities for their organizations, with 58% of CEOs saying that it is one of their top priorities. However, much fewer—only 14%—report strongly agreeing that senior management spends adequate time on people issues during times of strategic change.

According to CEOs, some of the most critical barriers to success during periods of large-scale, transformational change cited include:

- Lack of engagement or motivation of middle managers to drive change (50%)
- Lack of change management skills and experience in senior management (48%)
- Lack of collaboration across functions to execute the change (45%)
- Lack of communication on the personal benefits of the organizational change (39%)



Figure 13. Cultural issues are the biggest barrier to successful M&A



Source: PricewaterhouseCoopers' 11<sup>th</sup> Annual Global CEO Survey, 2008

What this means for your business

You could be losing deal value by failing to plan soon enough or act fast enough. Accelerating the transition improves results enterprise wide.

There is no value in a prolonged transition. If you're not planning early enough and acting fast enough, you could be leaving value on the table. Delaying integration activities adds costs, slows growth, erodes profit and reduces or postpones the payback.

When done properly, the value of a deal—and the opportunities it presents—may be much more than you think.

- Deals open a window to redefine processes, cultures and ways of working.
- Deals create possibilities to boost performance through sustainable change and continuous process improvement efforts that could transform the entire business.
- Deals can lay the groundwork for embedding enterprise agility, preparing the company to respond more quickly and efficiently when new challenges—or opportunities—arise.

The basic principles to an Accelerated Transition™ are straightforward: improve your odds of achieving the right synergies and capture the desired deal value by ensuring a fast-paced integration using a disciplined process, well-coordinated launch, and relentless focus on the key value drivers behind the deal.

# PwC's Seven Fundamental Tenets of Successful Integration

Capturing sustained economic value in a merger or acquisition is one of the most significant challenges for today's growth-minded companies. As you might expect from PwC, we have a point of view about how our clients can best go about reaching their objectives. We believe there are Seven Fundamental Tenets to Successful Integration.

## **1. Accelerate the transition.**

There is no value in delay. It is critical to focus on obtaining bottom-line results as quickly as possible to maximize shareholder value. Prolonged transitions slow growth, diminish profits, destroy morale and productivity, and lead to missed opportunities and loss of market share. On the other hand, accelerated transitions result in more rapid return on deal investment, better capitalization on post-deal opportunities, and reduced organizational uncertainty.

## **2. Define the integration strategy.**

Integration is a highly tactical effort. But the tactics must be implemented in ways that capture and protect the value of the deal. Rapidly converting acquisition strategy into integration strategy is of paramount importance. Integration priorities are easier to identify and execute when a clear integration strategy is well defined and communicated.

## **3. Focus on priority initiatives.**

Resource work load limitations demand that integration efforts be prioritized. And shareholder value must drive the allocation of resources for meeting those priorities. First, potential sources of value capture and value creation must be identified. Then, resources are allocated based on potential financial impact, probability of success, and timeline requirements.

#### **4. Prepare for “Day One.”**

Critical “Day One” tasks need to be identified early, before longer-term, more detailed planning commences. This allows for prompt identification of long-lead time items, well before they can turn into closing day surprises. A detailed plan should then be created, including all actions that will be put in place on Day One. Planning for Day One should begin in conjunction with the due diligence process.

#### **5. Communicate with all stakeholders.**

Communicate early and often with all stakeholders, including customers, employees, investors, suppliers/vendors, and the general public—providing information that addresses their special concerns, yet is consistent in overall theme and tone. Communication should articulate the reasons behind the deal, reveal timing for key actions, and be candid about both what is known and what is unknown. Feedback mechanisms should be included to ensure the dialogue is two-way.

#### **6. Establish leadership at all levels.**

Swift selection of key management posts early in the transition is critical for minimizing uncertainty, assigning accountability, defining functional authority, and establishing role clarity. Companies need to quickly define organization structure and operating model, and clarify key management roles and interrelationships.

In addition, during the initial phase of integration, a team-based control structure should be established to link integration strategy and leadership with task-level action, and to coordinate issue, action and dependency management across the organization. A successful integration management structure must define clear responsibilities and reporting relationships. Teams of functional specialists are tasked with integrating core functional areas. They, in turn, report to a team of individuals with overall responsibility for managing the integration. Finally, a steering committee of senior leaders provides oversight for the overall effort.

#### **7. Manage the integration as a business process.**

Mergers and acquisitions rarely fail due to flawed strategy. Rather, failure is most often a result of not executing the strategy in a timely fashion. Successful integration must happen quickly and systematically—the period of time between deal announcement and deal close, and the first 100 days post close, are absolutely critical to realizing quick wins and preparing the company to maximize value over the long term.

## Methodology

In 2008, PricewaterhouseCoopers surveyed senior management from a sampling of large capital and middle market US companies which had completed a merger or acquisition in the past three years. The goal of the study was to understand the current state of M&A integration practice and its impact on management's assessment of deal success.

We asked a third party survey company to conduct over 125 telephone interviews with these executives. Respondents participating in the survey were guaranteed anonymity for themselves and their companies, and were screened to ensure they had direct first-hand knowledge of the issues their organizations dealt with during the M&A integration.

Of the companies participating in this survey, 37% had \$1 billion or more in annual revenue, 48% had \$100 million to under \$1 billion, and 15% had under \$100 million in revenue. Survey participants fell into the following broad industry groups:

- technology, information, communications or entertainment (32%)
- financial services or insurance (27%)
- industrial products or services (19%)
- consumer products or services, including retail (12%)
- healthcare products or services (10%)

Sixty-two percent of interviewed respondents were senior executive management, with titles including CEO, President, COO and CFO, etc. The remaining 38% were comprised of other senior managers, with titles including VP of Corporate Development, Operations, Human Resources and Strategic Planning, Information Technology, etc.



To have a deeper conversation  
about how this subject may affect  
your business please contact:

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with renewable, non-polluting, wind-generated electricity.



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